

# MODULE 13

## BUDGETS



After working through this module, you should be able to define and explain the following basic budgeting concepts:

- Cash budget
- Zero-based budget
- Capital budget
- Long term budget
- Medium term budget



Prior  
learning

Before studying this module, you should have a reasonable understanding of how cash transactions are recorded in the cash receipts and payments journals as well as how to draw up the basic financial statements of income statement and balance sheet.

### Note to Teacher:

The purpose of this module is to expose learners to the concept of budgets. In Grade 10, the learners are only expected to explain basic budget concepts. In Grade 11 and 12, this topic will be expanded on to prepare and interpret cash budgets. Therefore, at this stage, we can concentrate on the importance and value of drawing up budgets and how they can be used to assist us in the running of the businesses. Learners are expected to demonstrate knowledge of internal control processes.

### TASK 13.1 Basic budget concepts – Question and answer

Allow the learners time to discuss what they know around this topic. This task serves as a baseline assessment to determine what the learners already know so that you can build on the topic. Allow them to report back to the class and draw up a comprehensive list on the board so that you can set the basis for future lessons.

#### Suggested answers:

- 13.1.1 A budget is drawn up to plan for the future.
- 13.1.2 A budget can be drawn up at any time but is generally drawn up when planning for the future – e.g. for the next financial year.
- 13.1.3 Various answers – budget day has an impact on the economy of the country and will, therefore, affect all individuals
- 13.1.4 Can be either good news (tax reductions) or bad news (tax increases) or even a combination of both.
- 13.1.5 All individuals / businesses in the country should be interested.
- 13.1.6 National, school, business, sport occasion, funding raising, etc.

### TASK 13.2 Individual effort - homework

The following are some of the possible answers. Allow for a variety of responses. Ask learners to total both sides and calculate the difference. Some may have a “surplus” whilst others have a “deficit”.

### 13.2.1

RECEIPTS (source of money received)		PAYMENTS (for expenses and accounts)	
Detail	Amount	Detail	Amount
Monthly salary	17 500	Bond on home	4 200
Monthly Interest from fixed deposit	800	Transport	2 100
		Monthly groceries	5 300
		Water and light	850

### 13.2.2

- Medical emergency
- Car accident repairs (excess amount to be paid on insurance)
- Etc.

## TASK 13.3 Group proposal

Allow the learners time to engage in this task. It is not so much the accuracy of the information and the figures but more the concepts that need to be re-enforced.

**Suggested rubric for the presentation:**

Criteria	Level 1 Inadequate	Level 2 Partial	Level 3 Adequate	Level 4 Satisfactory	Level 5 Meritorious	Level 6 Outstanding
Group work	Very poor group work – functioned as individuals	Some attempt to work together	Generally the group worked well but not as effective as possible	Good group dynamics in which the group functioned effectively	Good group dynamics in which the group utilised some of the strengths effectively	Excellent group dynamics in which the group utilised the strengths of each member very effectively
Extent of information	Inappropriate information gathered	Some attempt to gather information	Appropriate information gathered but not complete	Adequate information gathered to support all decision making	Some aspects of information are more extensive	An extensive amount of information gathered to add value to the decision making
Presentation	Poor presentation	Some aspects of the presentation was acceptable	Appropriate presentation but not complete	A comprehensive presentation	Some aspects of the presentation are excellent but not all	An excellent presentation

## TASK 13.4 Personal cash budget

### 13.4.1

<b>EXPECTED RECEIPTS</b>	<b>R</b>
Monthly allowance	600
Waiter salary (3 x 5 x 15)	225
Tips (3 x 60)	180
<b>Total Receipts [A]</b>	<b>1 005</b>
<b>EXPECTED PAYMENTS</b>	
Toiletries	110
Petrol (40 x 8.60)	344
Entertainment	150
Tuck shop	50
Hi-Fi repayments	75
Cell phone airtime	60
Savings	120
Present	120
<b>Total Payments [B]</b>	<b>1 029</b>
<b>DIFFERENCE [A – B] (Shortfall)</b>	<b>(24)</b>

### 13.4.2

- (a) No. His expenditure is more than the income.  
 (b) Cut back on petrol; buy a cheaper present; cut back on entertainment, tuck shop, etc.  
 (c) Increase his income. Reduce the expenditure.

## TASK 13.5 School budget

Invite class to comment on the current budget of their present school. Ask questions such as:

- Do some of these expenses exist in our school?
- What are our school fees?
- Do we provision for exemption in our school?

Relate this activity to reality. Lead learners to concept of “Deficit”.

### 13.5.1

<b>RECEIPTS</b>	<b>R619 000</b>
School fees (370 learners x R900)	333 000
Government subsidy	180 000
Profit from grade 7 dance	65 000
Cash from school fun run	15 000
Hiring out school facilities after hours	11 600
Tuck shop rental	14 400
<b>PAYMENTS</b>	<b>R622 944</b>
Additional text books	48 600
Office stationery	14 904
Sports equipment	17 000
Additional furniture (chairs and desks)	20 200
SGB educators salaries (3)	281 880
Service contract for office equipment	19 440
Duplicating paper	37 800
Cleaners' salary (45 360 + 38 400)	83 760
School security	86 400
Cleaning chemicals and other expenses	12 960
<b>DEFICIT FOR THE YEAR</b>	<b>(R3 944)</b>

**13.5.2** The payments exceed the receipts by R3 944. This means that there is a DEFICIT. Therefore this budget has to be adjusted – there has to be some cuts in some of the expenses.

**13.5.3**  $R100 \div R800 \times 100\% = 12.5\%$

**13.5.4** No.

- One reason is that the payments exceed the receipts as shown in 13.5.2
- The SGB educators' salaries are the single largest expense. Some parents might feel strongly that this expense has to be met by the DOE, i.e. the government.
- Parents will also resist the proposed increase in school fees citing high unemployment levels of parents.

## TASK 13.6 School tennis budget

Details	Court Hire	Tennis Balls	Catering	Transport
Practice	R45 x 3 afternoons x 40 weeks = R5 400	9 balls x 4 terms x R8 = R288		
Matches	3 courts x 10 weeks x R15 = R450	9 balls x 10 weeks x R8 = R720	12 x R5 x 10 weeks = R600	20 km x R1.50 x 10 weeks = R300
<b>TOTAL</b>	<b>R5 850</b>	<b>R1 008</b>	<b>R600</b>	<b>R300</b>

### BUDGET:

<b>Income required from school</b>	<b>8 058</b>
<b>Expenditure:</b>	
Court hire (5400 + 450)	5 850
Tennis balls (288 + 720)	1 008
Catering	600
Transport	300
Magazine	300
	<b>8 058</b>

### Note:

1. Practices run all year so this means 40 weeks a year.
2. They will use 3 courts on 3 afternoon each week for a year.
3. Each court costs R15 per afternoon.
4. New tennis balls are only given out at the beginning of each term for practices.
5. As matches are on a home and away basis it means that one team will always be at home and one away.
6. Matches are only played in the second term – which means 10 matches per team.
7. Refreshments are provided for the school team and the visitors so this means 12 players per match.

## TASK 13.7 School cricket budget

Details	Current Year	Next Year	Explanation
New cricket balls	6 000	10 080	Teams have increased from 5 to 7, plus there has been an increase of 20%, i.e. $6\ 000 \div 5 \times 7 + 20\%$
Lunches	8 000	11 200	Teams have increased from 5 to 7 but no increase in the cost of the lunches per person, i.e. $8\ 000 \div 5 \times 7$
Transport	2 000	3 500	Teams have increased from 5 to 7 plus there has been an increase of 25%, i.e. $2\ 000 \div 5 \times 7 + 25\%$
<b>TOTAL</b>	<b>R16 000</b>	<b>R24 780</b>	

## TASK 13.8 Comparisons of budgets

Allow the learners to come up with their own responses. No answer is right or wrong but proper reasons need to be supplied.

### Suggested answers:

The tennis budget started from the beginning – zero-based – and they had to look at each item separately plus the overall effect. In the cricket budget, they started from last year and just added on. This method can be deceiving particularly if there were problems last year. It does not take into account extenuating circumstances. There was also a problem because the food was not increased which is probably unrealistic. A zero-based budget often gives a truer picture – but different circumstances demand different approaches.

## TASK 13.9 Budget for a florist

### TOTAL COSTS

<b>Seeds</b>	Green: 1 pkt = 5 stars 40 pkts x R6 = R240	
	Red: 1 pkt = 4 stars 50 pkts x R6 = R300	
	Clear: 1 pkt = 2 stars 100 pkts x R6 = R600	R1 140
<b>Metal wire</b>	200 x 50 cm = 10 000 cm 100 m x R2	R200
<b>Wages</b>	200 ÷ 2 = 100 hours / 8 hours = 12.5 days 12.5 x 100 = 1 250	R1 250
<b>Packaging</b>	200 ÷ 10 = 20 x R25	R500
<b>Total costs</b>		R3 090
<b>Unit cost</b>	3 090 ÷ 200	R15.45

### Note:

The pliers and cutters would not affect the cost as they are assets.

- SELLING PRICE: Depends on the mark-up (learners can come up with their own suggestions) but must be higher than the cost per item, i.e. R15.45
- OTHER COSTS – rent, insurance, wages, etc.
- ADVICE – learner's own opinion, with reasons.

## TASK 13.10 Government budget

13.10.1 Education.

13.10.2 Compulsory schooling; need to educate and uplift the people of the country; will benefit the economy in the long term.

13.10.3 Education: Textbooks, schools, teachers, etc.  
Health: Hospitals, medicines, doctors, nurses, etc.  
Housing: RDP houses  
Debt: Paying off debts  
Water: Agriculture, dams, purification, boreholes, etc.  
Transport: Communication, roads, rail, telephones, satellites, etc.  
Welfare: Child grants, old age pensions, etc.  
Protection services: Police, Defence, Navy.

13.10.4 Allow learners to discuss this question before writing down their own answers.

13.10.5 Learners must be encouraged to comment on any departments which they feel need a revised allocation.

Encourage learners to motivate (give reasons) for this adjustment.

Emphasise to learners that the WHOLE must equal 100% - this means that there will necessarily be a reduction in some departments.

## TASK 13.11 Ethical & internal control scenarios relating to budgets

Before undertaking this task, it is advisable to inform the learners about what is meant by ethics in business, fraud and internal control (you may refer to Modules 13 and 14).

- 13.11.1 No problem is evident. The cash situation improves by R113 000.
- 13.11.2 The increase in drawings of R50 000 per month will place strain on the cash resources of the business. Steve must be certain that the income can support this increase.
- 13.11.3 Although the R4 000 monthly decrease in advertising helps the cash situation, it might affect the fee income negatively. Steve must reassess this when more evidence is available.
- 13.11.4 This is a very favourable increase of 20%. Steve must be certain that he can afford to grant this high increase. Employees must be aware that they might have to work harder and more efficiently for a 20% increase in wages.
- 13.11.5 The telephone budget has been exceeded by 50%. This reflects poor internal control and corrective measures must be put in place.
- 13.11.6 The reason for the shortfall in rent income must be investigated. Possibly poor control over the tenants. Possibly the premises are no longer attractive to tenants.
- 13.11.7 Good internal control of stationery. Only 50% of budget used.
- 13.11.8 The fee rate increased by 60% yet the total fees increase by 12%. Steve might be pricing himself out of the market. Customers might use other security firms. Steve will need to monitor the actual fees received to get a good idea of whether the increase in the rates charged will be beneficial.
- 13.11.9 This will benefit the business if property values increase and if reliable tenants can be found. However this will lead to extra repairs and maintenance costs. Using cash from the existing fixed deposit and capital from the owner is risk free (no interest to be paid, no repayments).
- 13.11.10 This is poor business practice. Operating expenses should be covered by operating income. Loans can be used to lasting purchase assets only if necessary. Loans carry interest and they require monthly repayments which places stress on the cash resources.

### CHECKLIST

Skills	Yes – proficient	Requires more attention	Complete
Understands the reason for drawing up a budget			
Appreciate the role of the state budget			
Understands the need for control of the budget			
Understands the difference between short, medium and long-term budgets			
Understands the difference between zero-based and increment budgets			
Analyse ethical and internal control scenarios relating to budgets			